Setting the standard in equity release

EQUITY RELEASE COUNCIL
Incorporating SHIP Standards

Unlocking the potential:

The future of equity release

www.equityreleasecouncil.com

Introduction

How equity release can help to meet the challenges of an ageing society

The UK population is ageing. Age UK's recent Care in Crisis report showed that the number of people aged 65 and over grew by over one million between 2005/6 and 2012/13, with the number of people aged 85 and over rising by 30%.[1] At the same time, estimates for the total level of equity in older people's housing are as high as £1.4 trillion[2]. An ageing population brings with it a number of challenges, but equity release has the potential to help meet these, while contributing to some of the key policy challenges of the current parliament.

Equity release crosses a number of government departments – in particular HM Treasury, the Department for Work and Pensions, the Department for Communities and Local Government and the Department of Health. This paper sets out how equity release can help meet a range of public policy challenges, as well as how government could do more to unlock this potential – setting out specific actions which can be taken. As the new Government continues its efforts to manage public spending and achieve more with less, we hope that politicians and policymakers will receive this paper and its recommendations with interest.

The Equity Release Council would like to see a cohesive approach across government departments to equity release, to help to unlock the potential of equity release to provide an additional source of finance for people in later life. We believe that there is a need for better coordination across government, and in particular for a government department to take a lead on coordinating policy relevant to equity release and to encourage other departments to consider how they could work better together - avoiding unforeseen consequences for the industry and ensuring maximum benefits for the Government and consumers. The Treasury's oversight of other departments, combined with its responsibility for financial services, makes it the natural home for equity release.

This White Paper provides an overview of the key policy developments presenting opportunities and challenges for the equity release industry. It highlights where equity release can provide a solution for problems faced by society, where Government policy could do more to consider equity release, and where regulation is providing direct challenges to the development of the sector.

1. Care in Crisis Report 2014: http://www.ageuk.org.uk/Documents/EN-GB/Campaigns/CIC/Care_in_Crisis_report_2014.pdf
2. English Longitudinal Study of Ageing (ELSA)

About the Equity Release Council

The Equity Release Council is the industry body for the equity release sector. Born from an expansion of the remit of SHIP (Safe Home Income Plans), The Council represents the product providers, qualified financial advisors, lawyers, intermediaries and surveyors who work in the equity release sector. The Council has over 400 members.[3] Next year it celebrates its 25th anniversary.

The role of equity release

Almost 80% of people aged 65-74 own their own homes[4]. Estimates for the total level of equity in older people's housing are as high as £1.4 trillion[5]. This provides a large potential source of funding for things which may make life easier for older people. While some people may choose to downsize in later life, many people will prefer to stay in their own home, and equity release allows them to unlock money from their property.

By using an equity release product, a home owner can release wealth tied up in their homes which could be used for a range of purposes, including: later life needs and to augment retirement income; home improvements and adaptations; purchasing social care or assistance around the home; replacing a car or other large household items or helping with transport costs if they can no longer drive; support for family members; and holidays.

More than two thirds of people over 65 are homeowners without a mortgage, and the last few years have seen a greater understanding of the equity release market and of how it can provide solutions for older people.

The report, *Ready for Ageing?*, by the House of Lords Select Committee on Public Service and Demographic Change, notes that "People with housing equity should be enabled to release it simply, without excessive charges or risk. The Government should work with the financial services industry to ensure such mechanisms are available and to improve confidence in them".[6]

This paper looks at the role of equity release across a number of policy areas, including retirement funding and the Pension Wise service, the regulatory framework for equity release and care funding. It highlights how equity release can help solve problems faced by the Government – and where the Government needs to do more.

3. See http://www.equityreleasecouncil.com/member-directory/
4. See ONS: http://visual.ons.gov.uk/uk-perspectives-housing-and-home-ownership-in-the-uk/
5. English Longitudinal Study of Ageing (ELSA)
6. Report available at http://www.parliament.uk/business/committees/committees-a-z/lords-select/public-services-committee/report-ready-for-ageing/

Summary of recommendations:

The Government should:

- consider the role of equity release as part of their strategy for addressing the challenges of an ageing society, ensuring that people are able to utilise housing wealth to improve their income and wellbeing in retirement where appropriate;
- expand the scope of the Pension Wise service to enable users to understand how accessing housing wealth may provide solutions to satisfy their objectives;
- consider how equity release can be utilised to help people pay for home care – providing financial resources which can help people retain ownership of their home and stay living in it for longer;
- in conjunction with local authorities and other stakeholders, develop clear pathways for local authorities to use to help people who are seeking support on financing care services understand when they should access regulated financial advice and how they should go about doing so;
- develop a range of case studies to illustrate best practice on referral to financial advice on care funding, which would complement the guidance on the implementation of the Care Act;
- use the Financial Advice Market Review as an opportunity to ensure that people nearing retirement are able to access independent financial advice, which allows them to consider the full range of relevant issues – including retirement funding, paying for care, home adaptations and leaving money to children and grandchildren; and
- ensure that the Financial Conduct Authority's (FCA) review of the equity release market is wide-ranging and considers the impact of the regulatory framework on the equity release market, as well as other potential barriers to increasing the size of the market.

The future of retirement funding and the role of equity release

The 2014 Budget saw major changes to how retirees can access their pensions. Prior to this announcement, around three quarters of people reaching retirement age purchased an annuity, which provided a guaranteed income for life.

The reforms have provided an unprecedented amount of flexibility for retirees in how they access their savings. But they also provide the potential for people to make financial decisions which may lead to poorer outcomes later in life. With this in mind, the Government set up the Pension Wise service to offer people access to free, impartial guidance on the options open to them when they retire.

Pension Wise providers do not make recommendations, but help people to ask the right questions.[7] The Council's overriding concern since the announcement has been to ensure that the guidance is wider ranging and encourages people to consider all of their options for funding their needs later in life – including housing wealth – and that it signposts people to regulated financial advice where this is necessary. We welcome the "principles-based standards" developed by the FCA, to underpin the guidance.

The guidance provided should help people to make informed choices, helping them to take into account issues such as investment risks, and the fact that it is difficult for anyone to make an accurate estimate of how long they will live. If anything, many people at the beginning of their retirement underestimate their life expectancy[8], leaving a risk that they will run out of money before they die – so the guidance needs to help them secure a sustainable income that will not run out.

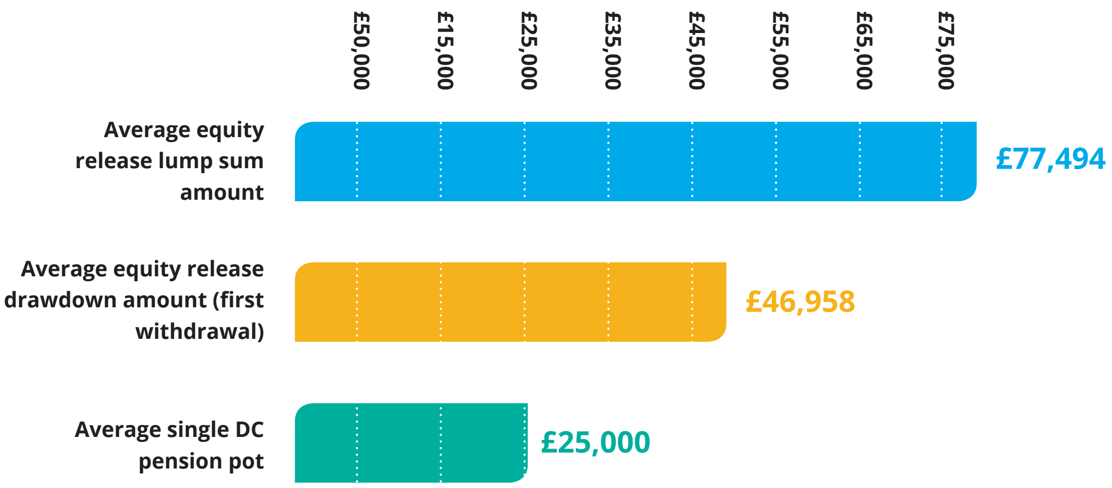
The FCA's standards are heavily focused on defined contribution pension savings as the main source of income in later life[9]. Although they do suggest asking whether the customer is a home owner or a renter, there is no prompt to consider proactively how housing wealth could provide additional resources to support people in later life. While we appreciate that the initial aim of Pension Wise was to help people make decisions about their defined contribution pensions and not their assets or wealth, as the service becomes more established, people should be encouraged to consider all their options. Increasing numbers of over-55s are looking to draw upon the wealth contained within their home to achieve financial security and stability in later life, with some two-thirds of equity release products sold being for drawdown rather than a single lump sum[10]. The Pension Wise service should take this into account.

Dominic Lindley, recently appointed as a member of the Financial Services Consumer Panel and formerly of Which?, giving evidence at the Pension Schemes Bill Committee in 2014, noted that for one family in four, defined contribution pension savings make up only 4% of their total household

7. See https://www.pensionwise.gov.uk/
8. See research from Aviva: http://www.aviva.co.uk/adviser/product-literature/view-document.cgi?f=longevityinfographic.pdf
9. Principle based standards - http://www.fca.org.uk/static/documents/policy-statements/ps14-17.pdf
10. Equity Release Market Report Autumn 2015 - http://www.equityreleasecouncil.com/document-library/er-council-market-report-autumn-2015/

wealth[11]. Our autumn 2015 Equity Release Market Report showed that in the first half of this year, the average amount of housing wealth held by customers was £242,476 for those choosing lump sum lifetime mortgages and £304,340 for those choosing drawdown products. The average amount lent under an equity release policy was £77,494 for lump sum plans, and £46,958 through drawdown plans with an additional £32,348 reserved for future use. To put these figures into context, the average single defined contribution pot is £25,000.

How the typical amounts of equity released compare to average pension pots



Sources: *Equity Release Council, The Pensions Regulator*

This highlights the potential for housing wealth to contribute additional resources, which could be used for a range of purposes, including home improvements and adaptations, allowing people to stay in their homes for longer and providing a contribution to care costs, as well as supplementing general retirement income. This points to the fact that housing wealth is likely to become an increasingly important source of income for retirement and later life. Any service providing people with guidance on planning for their retirement which does not at least prompt them to consider housing wealth is missing a key part of the picture.

The Council does welcome the fact that there will be a clear split between guidance and advice in the Pension Wise service, with the appropriate point for the hand-off to advice made clear. People must be able to access regulated independent financial advice where it is appropriate for them to do so, for example if they want to explore how they can use the equity in their home. A simple link to The Council's website would give clear information on how equity release works, as well as unbiased information about suitably qualified advisers, without requiring the Pension Wise advisers to provide detailed advice on the products.

11. Pension Schemes Bill Committee, October 2014 http://www.publications.parliament.uk/pa/cm201415/cmpublic/pensionschemes/141023/am/141023s01.htm

Recommendations

Government should:

- consider the role of equity release as part of their strategy for addressing the challenges of an ageing society, ensuring that people are able to utilise housing equity to improve their income and wellbeing in retirement where appropriate;
- expand the scope of the Pension Wise service to enable users to understand how accessing housing equity may provide solutions to satisfy their objectives.

Supporting people with care needs

Age UK's *Care in Crisis* report highlighted that despite a rising demand for social care services, funding for care has stagnated since 2005/6 and has been declining since 2010/11, alongside the number of people actually receiving it. Those with mild and moderate needs are most likely to struggle to receive public funding to help meet their needs – in 2013, only 13% of councils considered people with moderate needs eligible for funding.

Although the Government has introduced the Better Care Fund to bring together some NHS and local government care resources, the money allocated to the fund is taken from existing budgets and so will not address the lack of available funding.

The impact of the Care Act 2014

The Care Act, which received Royal Assent in 2014, was introduced with a view to securing the integration of health and social care services, and introducing new methods of paying for care – such as Deferred Payments Arrangements (DPAs), which would allow people to contribute to the cost of their care. The Act includes a £72,000 limit on the amount of their own money which people should have to pay for care within their lifetime. **However, the implementation of the cap has now been delayed from 2016 until 2020, after local authorities highlighted the huge pressures that they were facing in funding long-term care.**[12] These pressures are only likely to increase as policies such as the National Living Wage are implemented.

This will lead to some people facing significant bills for the cost of their care over the next few years. Prior to the implementation of the cap, anyone with assets of more than £23,250 will be expected to fund all of their care. Equity Release can help meet these costs. Simon Stevens, the Chief Executive of NHS England, recently said that it is time to "get creative" about policy in this area and suggested that it is worth exploring ideas to release housing equity to pay for these services.[13]

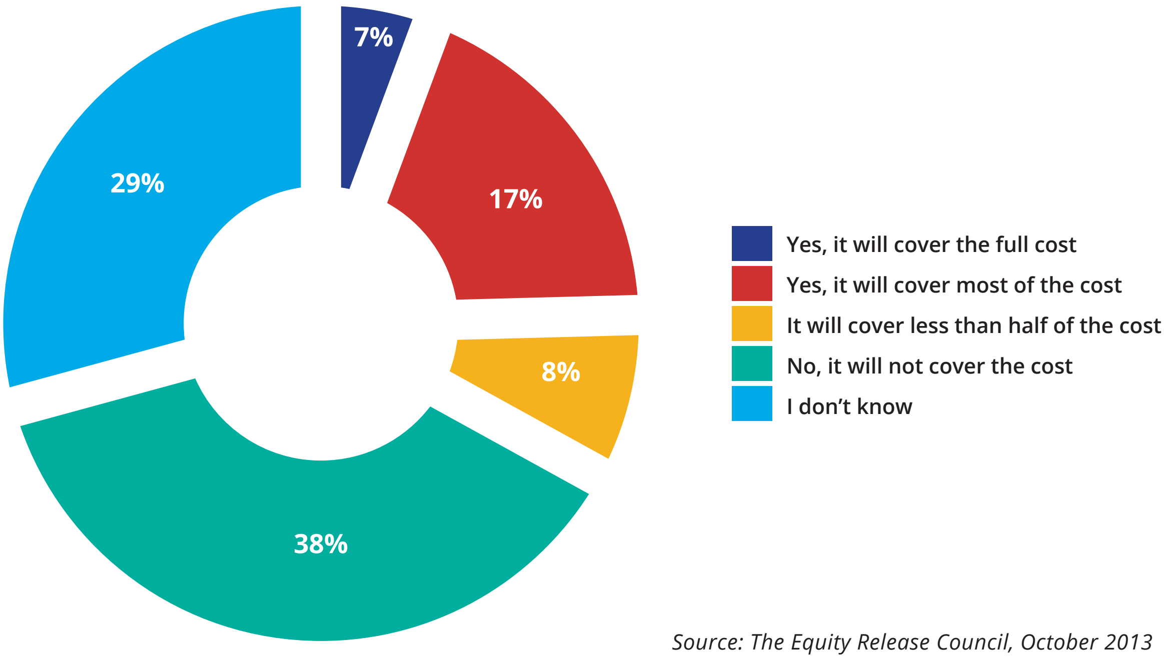
Even once the cap comes in, George Osborne has said that the capital limit for means-tested care costs will be set at £118,000, which it is hoped would allow more people to keep their homes. However, analysis from the Institute and Faculty of Actuaries[14] suggests that because this only covers direct care costs – and not additional costs which may be associated with being in a care home, such as accommodation and living costs for example, the average person will in fact spend £140,000 before they reach the cap. The analysis suggests that just 8% of men and 15% of women will benefit from the cap.

Paying for care will become an increasingly pressing issue in the next few years. According to research conducted by The Council in 2013, almost a third (32%) of over-55s in the UK believe they will need long-term care later in life, however 38% say they cannot afford to pay for it. Nearly a quarter (24%) expect their retirement income to cover most or all of the cost, but in reality the

12. See Government announcement: https://www.gov.uk/government/publications/delay-in-the-implementation-of-the-cap-on-care-costs
13. Speech by Simon Stevens, 7th October 2015: http://www.england.nhs.uk/2015/10/07/directors-convention/
14. See report: http://www.actuaries.org.uk/sites/all/files/documents/pdf/140512-how-pensions-can-meet-consumer-needs-under-new-social-care-regime-full-report.pdf

number of people financially prepared may be considerably less, with The Council's research highlighting that over-55s significantly underestimate the cost of long-term care. The average cost of long-term residential care is £28,367 per year, but over-55s estimate it to be just £16,027 – a £12,340 shortfall. This 44% gap in estimated funds illustrates an alarming lack of understanding of the true costs of care.

If you needed care, do you think your expected income in retirement would cover this cost?



Source: The Equity Release Council, October 2013

In fact, data from Aviva's latest Real Retirement Report reveals that in Q1 2015 the average pensioner income equated to £17,460[15], proving that the cost of residential care is not only higher than most people think; it is substantially higher than they can afford. In addition to this, The Council's research found 85% of over-55s confess to having made no plans at all for long-term care in later life.

Research has also demonstrated the prevailing lack of awareness of who pays for social care. A YouGov survey commissioned by Council member Just Retirement found nearly one third of adults (32%) believed that councils pay most of the cost of care, with individuals topping up the rest, while 40% thought individuals paid most with councils topping up the remainder. Only 12% thought that the individual pays the entire cost.

The survey also enquired whether people would seek professional advice. When asked where individuals would go for information or advice on how best to pay for professional care, one in five (20%) chose their local council, a similar number (21%) said Citizens Advice and almost a fifth (18%) said they would go to the NHS. **When survey participants were told about their likely personal liability for future care costs, almost two thirds (63%) recognised the need for professional financial advice.**

15. Real Retirement Report, Summer 2015: https://www.aviva.com/media/upload/18_07_15_Aviva_Real_Retirement_Report_special_edition_-_Are_you_fit_to_retire.pdf

Equity release could also be used to pay for vital home adaptations. Research carried out by The Council in 2014 found that seven out of every ten homeowners aged 65+ (70%) want to stay living in their current property during retirement, but just over a third (36%) believe they can do so safely without making home adaptations. This suggests that at least 2.8m people are living in homes which need investment to make them safe and practical for later life, so their owners can realise their ambition to stay there during retirement. The staircase and landing area is often the biggest concern for over-65 homeowners, followed by the garden, bathroom, and bedroom.

However, with 6% of over-65s having no savings at all and almost 20% having less than £10,000 to use, many will struggle to pay for these home adaptations. This is where equity release can help – figures from the first half of 2015 showed that 58% of customers taking out an equity release policy used money from equity release for home or garden improvements, according to retirement adviser Key Retirement's Market Monitor.[16]

Getting proper advice on paying for care

As the Care Act made its way through Parliament, The Council continually emphasised the importance of access to regulated financial advice given by a qualified adviser regulated by the FCA. We also recommended that all advisors have appropriate expertise in older people's issues – particularly when taking out complex financial arrangements such as deferred payments arrangements (DPAs).

Given the complexity of a number of retirement products, and the fact that people approaching retirement are not always in a good position to understand the impact of their current decisions on their later life, people should have access to expert advice where they need it.

In particular, we are keen that people are able to access advice prior to taking out complex financial arrangements such as DPAs. Ideally this should be from regulated financial advisers who have a minimum of the CF8 qualification. Currently only around 7% of people funding their own care get regulated financial advice – access to such advice helps ensure that people are aware of the full range of products which can potentially help them to pay for care. If more people can access such advice, it would help them to decide how best to pay for care, including how they can balance making the best use of assets such as housing wealth with other considerations such as leaving an inheritance for their children or grandchildren.

Good quality advice can also help people to plan their care properly, reducing the need to rely on local authority care later in life. Research published by the Local Government Information Unit in 2013 indicated that 24% of self-funders use up their assets prematurely and end up using state funding – this has an estimated cost to local government in England of £425m.[17] This will be even more important with the changes being made to how people can access their pension savings.

16. Key Retirement Equity Release Market Monitor Half Year 2015 https://www.keyretirement.co.uk/wp-content/uploads/Market-Monitor-HY-2015.pdf
17. Independent Ageing 2013: http://www.lgiu.org.uk/wp-content/uploads/2013/07/Independent-Ageing-2013.pdf

Following a consultation on the draft guidance to local authorities to implement the Care Act, the Government recognised concerns that the guidance should be clearer that local authorities should signpost people to independent financial advice (including regulated financial advice) when considering taking out a DPA. The Government therefore has included this in the guidance, under section 3 of the guidance on Information and Advice.[18]

The guidance gives a general overview of what Local Authorities are expected to do in terms of facilitating access to independent financial advice, stating that while they are not required to make a specific referral, “they should actively help and direct a person to a choice of advisers regulated by the FCA with the appropriate qualifications and accreditation.” It should be noted that this will often be a very difficult time for those looking for funding for access to care, and simply providing them with a list of regulated financial advisers will not suffice to ensure the best outcomes for everybody. Rather, the local authority should have clear pathways to help people access such advice.

The guidance could also have been strengthened with the inclusion of examples of best practice within the guidance, to ensure that what is expected of those implementing the guidance and what best practice looks like is clear. The Department of Health could work with bodies such as the Local Government Association, the Local Government Information Unit, the Association of Directors of Adult Social Services, and the Department for Communities and Local Government to identify examples of best practice. This could also draw on existing publications, such as the LGiU publication ‘Independent Ageing 2013, Council Support for Care Self funders.”[19]

The Government has recently launched a Financial Advice Market Review[20]. It will cover a number of areas, including the advice gap for those people who do not have significant wealth and the regulatory and other barriers that firms may face in giving advice and how to overcome them. It will look specifically at the barriers to obtaining advice on equity release, and is an excellent opportunity to consider a range of issues, including interaction with Pension Wise. This review will provide an opportunity to consider issues including how to specifically improve advice for those taking out equity release, the role of housing wealth in funding later life, and how people can access advice to help them plan their care.

18. Care Act Guidance: https://www.gov.uk/government/publications/care-act-2014-statutory-guidance-for-implementation
19. Independent Ageing 2013: http://www.lgiu.org.uk/wp-content/uploads/2013/07/Independent-Ageing-2013.pdf
20. Terms of reference: https://www.gov.uk/government/publications/financial-advice-market-review-terms-of-reference

Recommendations:

The Government should:

- consider how equity release can be utilised to help people pay for home care – providing financial resources which can help people retain ownership of their home and stay living in it for longer;
- in conjunction with local authorities and other stakeholders develop clear pathways for local authorities to use to help people who are seeking support on financing care services understand when they should access regulated financial advice and how they should go about doing so;
- develop a range of case studies to illustrate best practice on referral to financial advice on care funding, which would complement the guidance on the implementation of the Care Act and;
- use the Financial Advice Market Review as an opportunity to ensure that people nearing retirement are able to access independent financial advice, which allows them to consider the full range of relevant issues – including retirement funding, paying for care, home adaptations and leaving money to children and grandchildren.

The impact of the regulatory framework for equity release

There is currently a strong regulatory framework around equity release products in the UK – something which is welcomed by the Equity Release Council and the industry. We recognise the need to provide assurances to consumers.

To achieve this aim, The Council has implemented specific standards, which ensure that:

- **there has been a full discussion as to the implications of a chosen equity release product for the customer and their family – for example on the ability to leave an inheritance, or the circumstances where early repayment charges may become due – and that the customer has been made fully aware of these implications;**
- **the customer has been advised of the risks, features and benefits of the relevant product;**
- **the customer has considered all alternative courses of action; and**
- **the customer's physical and mental health has been considered in relation to the suitability of the product.**

Equity release products manufactured or offered by members of The Council also have a no negative equity guarantee, meaning that if there is any shortfall between the amount raised from the sale of the property and the amount still owed, the provider will not seek repayment of that shortfall. The Council has put these standards in place to protect and safeguard consumers, who may be at a difficult time in their life when looking to take out equity release and who are not used to dealing with such substantial sums of money. The safeguards also ensure that customers benefit from the skills, training and diligence of the professionals involved.

There is significantly greater understanding of the equity release market in recent years and equity release is now seen as a solution to a wide range of financial challenges. These include disappointing pension incomes and savings returns, going into retirement with an interest-only mortgage and restrictions on lending to older people. However, The Council has concerns about the detrimental impact on the sector and potential customers of the regulatory framework around equity release. For instance the FCA still views all equity release customers as “vulnerable” and equity release products as “higher risk”, despite the fact that there are more protections when taking out equity release than when taking out a normal mortgage. These attitudes are outdated and reflect the situation in the late 1980s and early 1990s, not the current equity release market.

More recently, the FCA has announced plans to review the rules for the equity release market because of concerns that not enough retirees are taking advantage of the opportunities it provides and because it is concerned that providers may be deterred from entering the market[21]. We enthusiastically welcome this effort to consider what more could be done to unlock the benefits of equity release for older people, and look forward to working with the FCA.

We hope that this work will be wide ranging and consider the impact of the regulatory language used to describe equity release as a potential barrier to increasing uptake.

Recommendation:

- The Government should ensure that the FCA’s review of the equity release market is wide-ranging and considers the impact of the regulatory framework on the equity release market, as well as other potential barriers to increasing the size of the market.

21. Speech by Christopher Woolard, 7th September 2015 https://www.fca.org.uk/news/the-future-of-the-uk-mortgage-market

Conclusion

Departmental responsibility for policy areas impacting on equity release

HM Treasury	Department of Work and Pensions	Department of Health	Department for Communities and Local Government	Financial Conduct Authority
• Financial services • Financial regulation • Financial advice • Overall government spending	• Retirement funding • Pension Wise	• Funding for long-term care	• Housing policy • Local authority care funding	• Financial regulation • Markets and competition • Financial advice

The 2015-2020 Parliament will face a number of challenges – from finding savings for November's spending review to reducing the deficit over the course of the Parliament – while tackling more specific issues from reviewing the implementation of Pension Wise to finding ways to meet the increasing costs of care. Equity release can contribute to a range of these challenges, while allowing people to make the most efficient use of their assets.

This paper has demonstrated how equity release impacts across policy areas "owned" by a range of government departments. In particular, HM Treasury, the Department for Work and Pensions, the Department for Communities and Local Government, the Department of Health, and the FCA need to be mindful of equity release – both the solutions which it can provide for government as society continues to age and the ways in which government policy can both support and disadvantage equity release.

The current key priorities for the industry include adjusting to the new pensions and retirement environment; understanding the role of equity release in paying for care; and the opportunities provided by the Financial Advice Market Review to ensure people can access the advice they need to plan for a financially secure retirement. We also look forward to the FCA's work to explore the barriers to improving the equity release market.

As the population ages and public spending continues to be constrained, equity release has great potential to help pay for later life. For this reason, The Council believes that there is a need for better coordination across government with regards to policy on equity release. If a named government department took a clear lead on equity release issues, this would provide the opportunity to ensure that those implementing policy changes have considered the impact on equity release, helping to avoid unforeseen consequences for the industry, government and consumers. It would also allow the sharing of insight as to where equity release could be used to help fulfil policy aims such as increasing retirement income or paying for social care.

The Treasury's oversight of other departments, combined with its responsibility for financial services, would make it the natural home for equity release.

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